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UNITED NATIONS DEVELOPMENT PROGRAMME

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ENGLISH

APPROVAL OF UNDP ASSISTANCE TO A PROJECT OF
PARAGUAY

IPF:(1987-91) $5 800 000

(PAR/91/009) - Reform and Strengthening of Financial Sector

Date of approval by the AC:[1/]	20 November 1991
Expected duration:	36 months
Proposed executing agency:	Government
Government implementing agency:	Banco Central del Paraguay
Proposed UNDP contribution:	$ 450 000 Source of funds: IPF
Government cost sharing:	$ 3 000 000
Total UNDP budget:	$ 3 450 000

Project background

The Government of Paraguay has embarked on a profound reform of the financial sector that includes liberalization of the capital market, unification of the former multiple exchange rate system and liberalization of the interest rates. Actions have been taken towards restoring macroeconomic stability: the public deficit has been reduced; and a tax reform has been initiated with IDB and UNDP support. However, monetary management needs to be improved both at the level of the Central Bank and at that of the public and private banking system. There does not exist, at the present time, an efficient system for supervision of the banks and each bank, official or private, has so far been setting its own monetary regulations with minimal intervention from the Central Bank.

Consequently, to rectify the situation and introduce coherence in its monetary and financial policy, the Government of Paraguay now wishes to modify the rules and regulations governing the sector, with special emphasis on modernizing and redefining the role of the Central Bank, strengthening its capacity to determine and dictate monetary policy and imparting to it the requisite systems together with the corresponding power to supervise and regulate the banking system. In addition, it will be imperative to modify the current systems and conditions governing credit operations which thus far have been undertaken on an arbitrary basis with no consistent strategy to encourage resource mobilization, investment of portfolios and minimizing of losses. Poor credit operations have also been associated with the problem of high levels of public debt faced by the Central Bank. It has so far not seriously fulfilled the function as lender of last resort and on several occasions been practically indistinguishable from other private banks.

[1/] This Fact Sheet reflects the status of the project/revision at the time it was approved by the Action Committee; modifications to the project/revision may have occurred subsequently.

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Description of project

The project will assist in the in the creation of a modified financial system, one with modernized and strengthened institutions and monetary policies/systems more conducive to savings and investment. More specifically, the project interventions will be undertaken at the following levels:

Central Bank of Paraguay - (i) The role of the Central Bank as a supervisory body regulating, analyzing and auditing the commercial banks will be defined together with proposals for the corresponding legislative changes. Technical assistance will be simultaneously provided for the upgrading of the capacities of the bank staff to develop and operationalize monitoring and evaluation mechanisms required to evaluate the financial viability of the banks and their compliance with the legal and financial regulations; (ii) Technical assistance will be provided for the upgrading (and in some cases the creation) of technical units that compile, analyze and disseminate macroeconomic financial data required to determine and modify monetary policy. This will includes data bases and systems relevant for analysis of the foreign and public debt, interest rates, exchange rates etc.; and (iii) Policies and technical data gathering and analysis systems will be established for the set up and regulation of a financial market, particularly those designed to govern the issuance and trading of equity and debt instruments.

The Public and Commercial Banks - With respect to the four public banks, proposals will be formulated to first, redefine the roles and structure of the banks such that they are viable enterprises operating on a set of financially sound guidelines, and second, to prepare the requisite documentation for the sale and privatization of the banks. With regard to the commercial banks that today lack adequate capacity for administration, credit and financial analysis, technical assistance will be envisaged for the National Institute of Commercial Banks (INABANC), a private institute that has traditionally served as the training ground for all levels of banking personnel, including those of the central and public banks.

Inputs

UNDP will provide 223 man-months of international consultants in superintendency and auditing, public banks, macroeconomic and macrofinancial policies, external debt, public debt, capital markets and operations, macroeconomics statistics and implications of MERCOSUR; 84 man-months of national experts in co-ordination and administration; training programmes in the above-cited areas; and computer equipment required for the Central Bank's supervisory systems and the technical units.

Financial data

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Personnel	1 972 300
Training	636 000
Equipment	462 500
Miscellaneous	379 200
Total	3 450 000